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6 August 1981

MEMORANDUM FOR THE RECORD

SUBJECT: Cabinet Council on Economic Affairs meeting 6 August 1981

1. On Thursday, August 6th at 8:45 I attended a meeting of the Cabinet Council on Economic Affairs . The agenda concerned:

(1) The situation in Poland;

(2) The Cancun Summit; and

(3) International Investment Policy.

A list of attendees and the papers prepared for the meeting are attached.

Poland

2. The purpose of the discussion on Poland was to keep the economic departments abreast of the situation and to make them aware of the possibility that substantial additional U.S. aid might be proposed. Marc Leland and Bob Hormats reported on their discussions with our Allies, particularly at Cancun I. Some Allied Ministers, including Gensher, believe that if the Polish experiment is seen to fail for economic reasons, Moscow will have achieved its objective of destroying the popular movement in Poland without having had to take any adverse action. The Europeans are becoming increasingly concerned about the situation. Several of them have waived downpayment requirements on credits and the French have announced a new near grant of 400,000 tons of grain

3. Concern was expressed around the table, especially by OMB Director Stockman, about the size of the potential bill the US may eventually have to pay, the risks of losing everything if the Soviets invade or the Polish reform movement otherwise collapses, the large U.S. share to date of the Polish aid bill, and the difficulty of explaining all this to the voters. The Vice President wondered whether some sort of commitment could be obtained from the Russians in return for the West bailing out the Polish economy. Discussion of such matters was referred to smaller "political level" meetings. In the meantime, Hormats and Leland will be discussing Poland with our Allies in Europe.

NSC review completed.

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Cancun

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4. Concerning Cancu reported that the U.S. had accomplished its objectives in the preliminary meetings as to procedures to be followed: specifically, no communique and no specific adgenda. He and others were concerned, however, that the President would be isolated at Cancun because of the powerful political incentives of most of the other Western leaders to make sweeping statements on the North/South dialogue in the expectation that the U.S will veto any proposal that could cost much money.

5. The current policy question is how to develop some proposals on North/South issues to follow up the on Cancun Summit for the President to present at an appropriate time, but without being drawn into "global negotiations" in the U. N.

Investment

6. A report from the Committee on Foreign Investment in the U.S. (CFIUS) concerning Elf Aquitaine's take-over of Texas Gulf and related matters were discussed. The issues are: (1) how to deal with take-overs of U.S. firms by foreign government-owned companies; and (2) how to use controls over foreign investment in the U.S. as leverage to ease foreign controls over U.S. investments abroad. The problems are:

-- The U.S. government has no existing instruments for controlling foreign investments .

-- Congress will want to legislate some controls which could turn out to be overly broad and restrictive.

7. CFIUS will try to develop a policy that provides some controls and negotiating instruments and at the same time could take the steam out of any proposals for excessive restrictions.

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Maurice C. Ernst
Director
Economic Research

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THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

August 6, 1981

8:45 AM

Roosevelt Room

AGENDA

1. Economic and Financial Situation in Poland (CM#114)

2. Cancun Summit (CM#115)

3. International Investment Policy (CM116)

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CABINET COUNCIL ON ECONOMIC AFFAIRS

PARTICIPANTS

August 6, 1981

The Vice President, Ex Officio Member

Secretary Regan, Chairman Pro Tempore

Secretary Baldrige
Secretary Donovan
Secretary Lewis
Director Stockman
Chairman Weidenbaum
Roger Porter, Executive Secretary

Deputy U.S. Trade Representative Macdonald
(Representing Ambassador Brock)

For Presentation:

Robert Hormats, Assistant Secretary
for Economic and Business Affairs
Department of State
Marc Leland, Assistant Secretary
for International Affairs
Department of the Treasury

Martin Anderson
Richard Darman
Craig Fuller
Frank Hodsoll
(Representing James A. Baker III)
Thadd Garrett
Kevin Hopkins
Larry Kudlow
Norman Bailey
Henry Nau

Robert Dederick

David Denoon
(Representing Secretary Weinberger)
Maurice Ernst
(Representing Director Casey)

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